

FICPA Proposes Peer Review Licensing Requirement

By Dan Hevia, CPA
FICPA Board of Governors



In his September/October President's Message, Mike Pender discussed the FICPA's top legislative priority – peer review as a firm licensing requirement. This article provides background about this legislative initiative and highlights the key parts of the proposal.

Florida and Delaware are the two remaining states that have not adopted peer review as a state licensing requirement. The National Association of State Boards of Accountancy (NASBA) supports a peer-review licensing requirement and includes one in its model accountancy act. Federal agencies, such as the Government Accountability Office (GAO), have incorporated peer review into their own standards.

The AICPA has had a peer-review membership requirement since 1988. Nationally, more than 30,000 CPA firms now participate in the AICPA Peer Review Program. Peer review has proven to be a valuable tool in improving the quality of CPA firms' accounting and auditing practices. It also provides users of those services with reasonable assurance that

CPAs are complying with professional standards.

In 2006, the FICPA created a task force to consider the pros and cons of peer review as a requirement for firm licensing. The task force was comprised of a broad base of the membership by firm size, nature of practice and members' initial attitudes about peer review. That task force, and a follow-up membership survey, resoundingly concluded that a peer review licensing requirement was needed in Florida, and that a significant majority of the membership supported it.

In 2007, the FICPA Board of Governors formally adopted a legislative policy that endorsed the concept of peer review as a firm-licensing requirement. The FICPA believes a peer-review requirement will have a positive impact on the Florida accounting profession, and will provide valuable protection to Florida consumers.

During its deliberation, the task force learned that those who aren't familiar with the peer review process hold several misconceptions about peer review. And

when those misconceptions are clarified, the level of apprehension and opposition to peer review greatly decreases.

With that in mind, the FICPA is reaching out to its members, as well as users of CPAs' attest services, to communicate the scope and goal of the proposed peer-review requirement.

The proposal will require that all CPA firms that practice in Florida undergo a peer review of their accounting and auditing practice once every three years in order to renew their Florida CPA firm license. This proposal includes several safeguards to ensure that the focus of peer review remains educational and remedial, helping CPA firms improve the quality of their accounting and auditing practices.

Requirement Won't Apply to All Firms

This requirement will follow the AICPA Peer Review Program Standards and participation in the AICPA Peer Review Program will meet this statutory licensing requirement. Therefore, this proposal will not impact AICPA member firms because those performing attest services already undergo peer review. Approximately 75 percent of FICPA members are AICPA members. The proposal will not impact CPAs in private industry, education and >>>

government because the requirement applies only to CPAs in public practice.

The proposal will not impact CPA firms that limit their practices to tax or consulting services. The requirement only applies to firms that perform attest services, including compilations.

For CPA firms that are required to have a peer review, the peer review will cover only the firm's accounting and auditing practice and the related quality-control system. It will not extend to other aspects of a firm's practice, such as tax or consulting services. Firms that are subject to inspection by the Public Company Accounting Oversight Board (PCAOB) also will be subject to peer review for the non-SEC portion of their accounting and auditing practice.

Results will be Confidential

The peer review results of individual firms will not be made public. The results will remain confidential between the reviewed firm, the reviewer and the Peer Review Committee. With very limited exceptions, there will not be any reporting of individual peer review results to the Board of Accountancy or any other government or ethics body.

The FICPA continues to support the current statutory requirement that exempts all information collected in a peer review from discovery in state court. We anticipate that reporting to the Board of Accountancy will be limited to a firm affirming on its firm license renewal that it has completed a peer review within the past three years. A firm may, however, voluntarily make its peer-review report publicly available. A firm may provide copies in engagement proposals, for example, or become a member of an AICPA Audit Quality Center.

There will be very limited exceptions to the confidentiality and reporting provision. Exceptions include instances in which a firm is terminated from the peer-review program for material non-cooperation, and instances in which a firm fails two consecutive peer reviews. In these instances, the Board of Accountancy would be notified.

FICPA to Introduce Legislation in 2011

The FICPA Board of Governors believes now is the time to be proactive in promoting this enhancement to Florida's accountancy laws and rules. The FICPA

has developed draft legislation and rules for Florida Board of Accountancy consideration. We anticipate introducing this information during the 2011 Legislative Session. There likely will be a phase-in of the requirement for firms as they renew their licenses, although those details have yet to be finalized. Firms that will be subject to this requirement and have not yet undergone a peer review should start planning for one.

The FICPA invites your comments and questions about this legislative proposal.

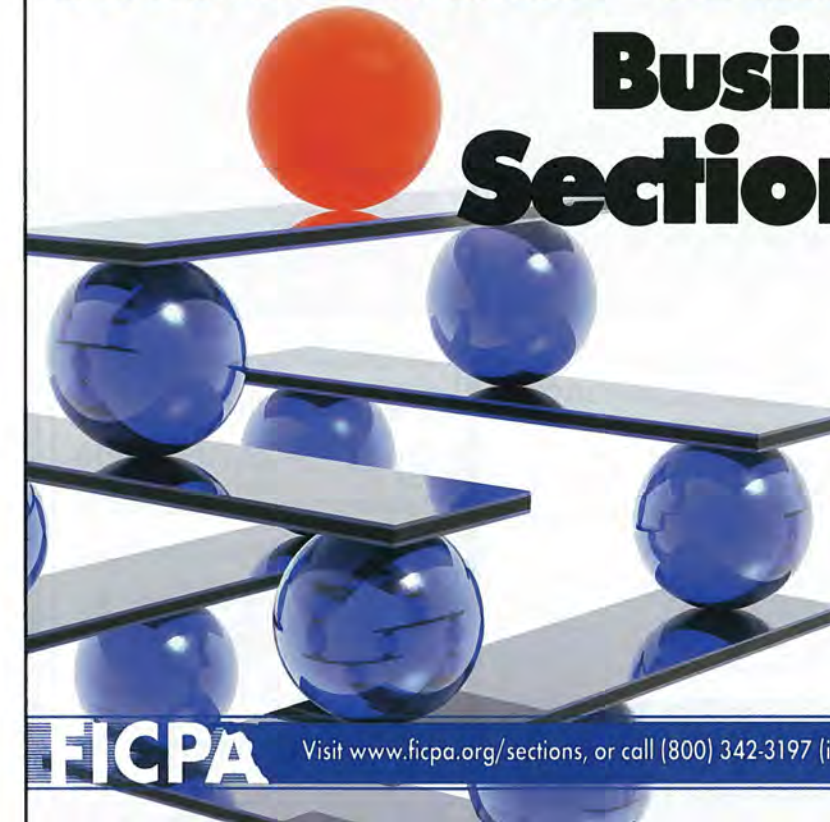
The January/February 2011 edition of *Florida CPA Today* will include a follow-up article that will discuss some of the important aspects of peer review, such as the differences in peer review for firms that do and do not perform audits; cost considerations; and how peer reviewers are selected. **FCT**

Dan Hevia is chair of the AICPA Peer Review Board and a member of the FICPA Board of Governors. He is a Florida CPA and the managing director of Hevia Beagles & Company in St. Petersburg. He can be reached at danhevia@heviabeagles.com.

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